



COUNTY OF LOS ANGELES DEPARTMENT OF HUMAN RESOURCES

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To enrich lives through effective and caring service

MICHAEL J. HENRY
DIRECTOR OF PERSONNEL

August 12, 2003

The Honorable Board of Supervisors
County of Los Angeles
383 Kenneth Hahn Hall of Administration
500 West Temple Street
Los Angeles, CA 90012

Dear Supervisors:

**RECOMMENDATION TO AWARD CONTRACT TO
MELLON FINANCIAL CORPORATION
FOR ADMINISTRATIVE SERVICES FOR CAFETERIA
AND NON-CAFETERIA BENEFITS PLANS
(3 VOTES)**

**JOINT RECOMMENDATION BY THE DIRECTOR OF PERSONNEL, THE CHIEF
ADMINISTRATIVE OFFICER, AND THE CHIEF INFORMATION OFFICER THAT YOUR
BOARD:**

1. Approve and instruct the Chair to sign the attached agreement with Mellon Financial Corporation (Mellon) as the Third-Party Administrator (TPA) for the provision of administrative services for cafeteria and non-cafeteria benefits plans (Agreement); the term of the Agreement will be approximately five years and four months, effective upon Board approval, with the Total Maximum Contract Sum under this Agreement not to exceed \$14,570,640. The Agreement will be paid on a per unit basis, based on actual employee benefit enrollment population each month.

PURPOSE/JUSTIFICATION OF RECOMMENDED ACTION

The existing agreement with Management Applied Programming, Inc. (MAP) terminates on December 31, 2003. Your Board's approval of the proposed new Agreement with Mellon would provide for continued administration of cafeteria and non-cafeteria benefits plans for approximately 93,600 full-time, part-time, and temporary County employees and their dependents beginning January 1, 2004. Mellon submitted the highest rated proposal based on the specific criteria of the Request for Proposals (RFP).

The County has used a TPA since 1990 to provide administrative services for Choices, Options, Flex and MegaFlex cafeteria plan enrollments, non-cafeteria plan enrollments, and administration and payment of health and dependent care spending account (flexible spending accounts) claims. These services included an Interactive Voice Response (IVR) telephone enrollment system as well as COBRA and HIPAA notification and automated billing of premiums for employees not paying through payroll deduction.

The administration of cafeteria and non-cafeteria benefits plans must be performed by an outside TPA because the County does not have, and could not develop at reasonable cost, and in a timely basis, the expertise, systems and experience to perform these services. Mellon is a global financial services company that has been providing employee benefits services since 1916.

The joint labor/management benefit committees for the Coalition of County Unions (Employee Benefits Administration Committee [EBAC]) and SEIU Local 660 (Benefits Administration Committee [BAC]) were represented on the proposal Evaluation Committee and agreed to the consensus scoring. Both BAC and EBAC support our recommendation and approve offering the contract to Mellon to provide cafeteria and non-cafeteria benefits plans administration.

Implementation of Strategic Plan Goals

The recommended action is consistent with the principles of the Countywide Strategic Plan to promote the well-being of County employees and their families by administering comprehensive employee benefits.

FISCAL IMPACT/FINANCING

The Total Maximum Contract Sum for the Agreement shall not exceed \$14,570,640. The Agreement will be paid based on actual employee benefit roll count, on a per unit basis. Based on the employee benefit roll count presented in the RFP, the actual expenditures payable to Mellon for the next five years will be \$14,146,250. If the employee count decreases over the next five years, the amount paid to Mellon will decrease on a dollar-for-dollar basis.

Any increases in the employee benefit roll count will be capped at 3% over the contract term, for total maximum contract expenditures of \$14,570,640. Should employee counts exceed 3%, Mellon will not be able to charge more than the contract amount of \$14,570,640. The unit prices for all deliverables will increase at 2.5% per year and are subject to the overall contract limit of \$14,570,640.

Based on the employee count as of January 1, 2003, as presented in the RFP, of 93,600 full-time, part-time, and temporary County employees, the following chart illustrates how the annual costs for 2004 could change based on a decrease in the number of employees, or an increase in employees up to a 3% cap in charges:

RFP Base Employee Count (as of 1-1-03)	3% Decrease in Employees*	3% Increase in Employees
93,600	90,792	96,408
\$2,458,410	\$2,384,660	\$2,532,160

*There is a reduction in price commensurate with reduction in employee count, without a floor.

The costs for cafeteria and non-cafeteria benefits plans administrative services are provided for in the 2003–2004 Budget and are partly offset by administrative fees paid by employees participating in the plans. Employees pay these fees through payroll deduction.

FACTS AND PROVISIONS/LEGAL REQUIREMENTS

This Agreement will become effective upon Board approval. It will provide TPA administration of cafeteria and non-cafeteria benefits plans. The Agreement term is for approximately five years and four months, through December 31, 2008.

Continued services provided under this Agreement include:

- IVR during the annual benefits enrollment period and for enrollments of newly hired and newly eligible non-union represented employees during the year
- Flexible Spending Account administration and claims processing
- COBRA notification
- Automated billing of employees for premiums not collected through payroll deduction
- Temporary employee enrollments

Enhanced services provided under this Agreement will greatly simplify employee access to information and enrollment procedures and tighten up vendor reporting and performance

standards. The County will keep up with current benefits administration technology. The customization features will result in improved record keeping, reporting and other efficiencies. Mellon was judged to be the best candidate in the following major areas of the County's benefits administration and business practices:

- **Americans With Disabilities Act (ADA)** – Mellon will be equipped with telecommunications device (TDD) for the deaf/hearing impaired effective January 1, 2004, bringing the County into full compliance with the federal requirements of the ADA.
- **Systems** – Mellon has the most highly evolved system, approaching state-of-the-art level. Their infrastructure and IVR/Web servers are "industrial strength" and are heavily tested. Upgrades are made every six months, and in five years, their system will be where the marketplace is at that time.
- **Web Enrollment/IVR Capabilities** – Mellon has an impressive web page design and an easy to use system. They provide 2000 telephone lines at all times for IVR enrollment, multiple T3 lines for Web enrollment and can process life event changes on the IVR/Web (the IVR allows for voice recognition for adding or deleting dependents), eliminating the need for paper processing. Web-based enrollments will be available for all newly hired non-represented employees effective January 2004; web-based annual enrollment will be available for non-represented employees in the Fall of 2004, and available to represented employees pending discussions with County unions.
- **Flexible Spending Accounts** – Mellon will provide online employee access to Flexible Spending Account information and the opportunity for claim reimbursement through direct deposit. They will process claims on a flow basis as received, as opposed to the current batch processing twice a month. This means that instead of waiting weeks for payments, employees can have more convenient and quicker access to their reimbursement dollars. Mellon provides imaging of all claims and receipts, which will allow DHR staff to view and audit these documents online. They have tracking mechanisms in place to capture performance to standards. Mellon agrees to performance guarantees and penalties and is willing to put money at risk to uphold these performance standards.
- **Experience with Similar Cafeteria Plan Services** – Mellon has strong experience with comparable sized clients, including the County of Orange, California. They have implemented similarly large conversions of data, with the largest being 164,000 records.

Benefits from the enhanced services of the agreement include:

- Mellon has a multi-million dollar annual technology budget to keep up with fast-moving changes and provides its clients automatic upgrades at no additional cost.
- State-of-the-art technology provides imaging instead of paper retention and excellent backup, security and recovery in the event of disaster.
- Increased IVR and web access during the annual benefits enrollment period, brought about by strong infrastructure and servers, reduces the risk of system failure during peak times and the costly remedy of extending the enrollment period.
- Additional service enhancements to the IVR for life event changes will eliminate the time-consuming and labor-intensive paper process that is currently in use.
- Increased and improved web-enabled benefits administration and report access for County departments and unions.
- The employee database created by Mellon will provide easy transfer to any database management-type personnel/payroll system that the County may adopt in the future.

As per this Board's requirements for certain contracts involving information technology/intellectual property, outside counsel was retained. The law firm of Sidley, Austin, Brown & Wood transmits a confidential opinion letter to your Board under separate cover contemporaneous with this Board Letter. The County retained outside HIPAA counsel for Employee Benefits, the law firm of Jones Day, along with the County's Chief Information Privacy Officer have approved the Agreement clauses pertaining to HIPAA. The Agreement has been approved as to form by the Office of the County Counsel.

CONTRACTING PROCESS

Mellon Financial Corporation was selected through a formal solicitation process. The Department of Human Resources (DHR) prepared and released a Request for Proposals (RFP) on March 31, 2003. The following steps were taken by DHR in the RFP process:

- Mailed RFPs to 19 known benefits administration firms and interested individuals.
- Contacted the Office of Affirmative Action Compliance for potential vendors.

- Advertised in the Los Angeles Times, La Opinion, The Sentinel and Asian Weekly newspapers.
- Posted the RFP on the "Doing Business with the County" Website.
- Provided RFPs to 16 additional firms who requested copies after seeing the advertisements or viewing the County's Website.
- Held a mandatory proposer's conference which was attended by eight (8) firms.
- Conducted interviews with four (4) proposers after the initial ratings, and made site visits to the top three (3) finalists.

Five proposals were received and met the RFP minimum requirements. The evaluation process followed recommended County guidelines. The proposal evaluation committee was comprised of representatives from DHR, the Chief Administrative Office, the Chief Information Office, the Auditor-Controller, S.E.I.U. Local 660, and the Coalition of County Unions. The committee's evaluation was based upon criteria described in the RFP which included proposed pricing, references, experience, capability and work plan. The evaluation process included a comprehensive review of the proposals, reference checks, oral presentations by the finalists and site visits. The evaluation committee reached consensus at each phase of the evaluation process.

The evaluation committee found Mellon to be the most responsive and responsible proposer due to clear and compelling reasons and although not the lowest bidder, their proposal scored highest overall. While Mellon was the best score overall, the lowest bid proposal had inadequate features, including non-compliance with ADA requirements. By unanimous recommendation of the evaluation committee, and with the support and approval of BAC and EBAC, it is recommended that the County enter into the proposed Agreement with Mellon.

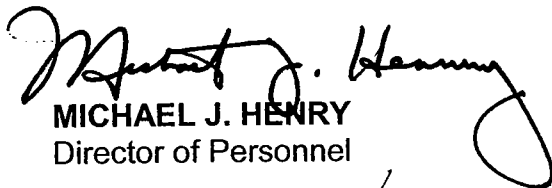
IMPACT ON CURRENT SERVICES

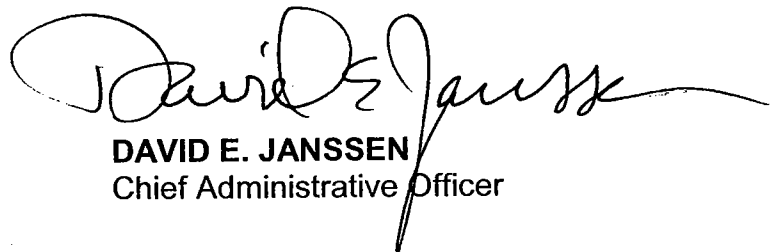
Based upon the evaluation of Mellon's capabilities, there will be additional and improved direct services to County of Los Angeles employees. The County can expect to receive improved administrative services with highly accurate and timely record keeping for its cafeteria and non-cafeteria benefits plans and the County will keep up with current benefit administration technology.

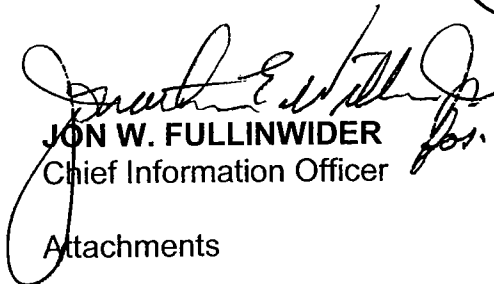
CONCLUSION

Instruct the Executive Officer, Board of Supervisors to return two signed originals of the agreement to the Department of Human Resources.

Respectfully submitted,


MICHAEL J. HENRY
Director of Personnel


DAVID E. JANSSEN
Chief Administrative Officer


JON W. FULLINWIDER
Chief Information Officer

Attachments

c: County Counsel
Executive Officer, Board of Supervisors
Auditor-Controller
Treasurer and Tax Collector

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